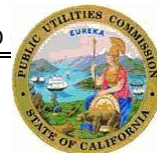


## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

**FILED**

4-01-15

11:25 AM

April 1, 2015

Agenda ID #13869  
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 14-01-002:

This is the proposed decision of Administrative Law Judge Tsen. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 7, 2015 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ KAREN V. CLOPTONKaren V. Clopton, Chief  
Administrative Law Judge

KVC:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ TSEN** (Mailed 4/1/2015)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Apple Valley  
Ranchos Water Company for Authority to  
Increase Rates Charged for Water Service by  
\$3,127,463 or 14.88 in 2015, \$2,056,455 or 8.4% in  
2016 and \$2,160,731 or 8.19% in 2017.

Application 14-01-002  
(Filed January 2, 2014)

**DECISION ADOPTING THE 2015, 2016, AND 2017 REVENUE  
REQUIREMENTS FOR APPLE VALLEY RANCHOS WATER COMPANY**

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**DECISION ADOPTING THE 2015, 2016, AND 2017 REVENUE  
REQUIREMENTS FOR APPLE VALLEY RANCHOS WATER COMPANY**

**Summary**

This decision authorizes revenue requirements for Apple Valley Ranchos Water Company for the years 2015, 2016, and 2017. Table I below illustrates the revenue requirements as adopted. Based on the adopted revenue requirements, the average residential customer will see its monthly bill go up from \$65.37 to \$71.81 each month, which represents a \$6.44 difference and a 9.85 percent increase.

**Table I.**

	Proposed Revenue Requirement	Adopted Revenue Requirement	Proposed Percentage Increase	Adopted Percentage increase
2015	\$24,151,000	\$23,190,000	14.88%	11.56%

This decision grants in part and denies in part a partial settlement between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates. This decision also resolves all other disputed matters necessary to adopt the revenue requirement for 2015, 2016, and 2017. This proceeding is closed.

**1. Procedural History**

On January 2, 2014, Apple Valley Ranchos Water Company (Ranchos) filed a General Rate Case (GRC) Application (A.) 14-01-002 requesting authority to increase its revenue requirement to \$3,127,463 or 14.88 percent for 2015, \$2,056,455 or 8.48 percent in 2016, and \$2,160,731 or 8.19 percent in 2017. Ranchos is a Class A water company subject to the jurisdiction of this Commission and the current requirements of Decision (D.) 07-05-065, which adopted a revised Rate Case Plan for Class A water utilities (Rate Case Plan).

The Office of Ratepayer Advocates (ORA) filed its protest to the Application on February 10, 2014. On February 19, 2014, the Town of Apple Valley (Town) filed a motion for party status, which was granted on February 20, 2014.

The assigned Administrative Law Judge (ALJ) conducted a prehearing conference on April 1, 2014. On April 17, 2014, Commissioner Carla J. Peterman issued a Scoping Memorandum and Ruling. On April 30, 2014, public participation hearings were held in Apple Valley.

From June 4, 2014 to June 13, 2014, parties engaged in settlement discussions. Evidentiary hearings on the disputed issues were held on June 16 and 17, 2014. Rancho, ORA and the Town filed opening briefs on July 21, 2014 and reply briefs on August 4, 2014.

On August 8, 2014, ORA and Ranchos filed a joint motion requesting approval of the Settlement Agreement.<sup>1</sup> While not a party to the Settlement Agreement, the Town was represented by counsel and attended settlement negotiations.<sup>2</sup> On September 8, 2014, the Town filed comments to the Joint Motion.

On January 8, 2015, the assigned ALJ issued a ruling requiring Ranchos to submit additional information on its 2014 main replacement program. Ranchos responded on January 15, 2015.

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<sup>1</sup> The proposed Settlement Agreement is attached as Appendix A to this Decision.

<sup>2</sup> See Joint Motion to Approve Settlement filed by the Office of Ratepayer Advocates and Apple Valley Water Company on August 8, 2014, at 4.

**2. Standards of Review****2.1. General Standard of Review**

Ranchos, as the applicant, bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

**2.2. Proposed Partial Settlement**

The Commission's Rules of Practice and Procedure (Rules) specifically address the standard of review on proposed settlements. As required by Rule 12.1, not all parties to the proceeding must be parties to the settlement,<sup>3</sup> and the proposed settlement must be reasonable in light of the whole record, consistent with the law, and in the public interest.<sup>4</sup>

Furthermore, pursuant to Rule 12.4, the Commission may reject a proposed settlement whenever it determines that the settlement is not in the public interest. Upon rejection, the Commission may propose alternative terms that are acceptable to the Commission while allowing the parties reasonable time to accept the terms or to request other relief.

**3. Settled Issues Approved in This Decision**

The majority of issues in this proceeding were settled between Ranchos and ORA. This decision grants in part and denies in part the joint motion for

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<sup>3</sup> Rule 12.1(a) states in relevant part: Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant.

<sup>4</sup> Rule 12.1(d) states: The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

adoption of the partial settlement agreement filed by Ranchos and ORA. The Town filed comments on the proposed settlement agreement.

The settled issues we approve in this decision are:

- Water consumption and revenues;
- Operations and maintenance expenses;
- Administrative and general expenses;
- Taxes other than income;
- Income taxes;
- Utility plant in service, except the main replacement program;
- Depreciation rates, reserve, and depreciation expense;
- Rate base;
- Park Water Company general office<sup>5</sup>;
- Affiliate transactions;
- Rate design;
- Water quality;
- Memorandum and Balancing Accounts (without modification);
- Special requests;
- Continuation of Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) mechanism;
- Low-Income Ratepayer Assistance Program;
- Requests to the Commission; and
- Requests as a result of the Settlement.

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<sup>5</sup> Apple Valley Water Company is a wholly owned subsidiary of Park Water Company and is therefore assessed a portion of Park Water Company's general office expenses.



**3.1. Water Consumption and Revenues**

ORA and Ranchos agreed to Ranchos's number of customers, consumption per customer, unaccounted for water, total water supply, and present rate revenues, as set forth in the table below.

**Table 1. Water Consumption and Revenues**

<b>Test Year 2015</b>	<b>Average Number of Customers</b>	<b>Consumption per Customer (Ccf)</b>	<b>Total Water Supply</b>	<b>Present Rate Revenues</b>
Residential	18,015	197.42	3,556,521	\$14,752,278
Commercial	1,364	585.02	797,967	\$3,370,132
Industrial	2	641.00	1,282	\$5,105
Public Authority	45	6,389.10	286,232	\$967,203
Irrigation Pressure	166	1,606.23	266,634	\$933,623
Private Fire Service	239	7.57	1,809	\$306,474
Public Authority Irrigation	5	5,364.92	26,825	\$35,267
Irrigation Gravity	1	456,274.90	456,275	\$196,700
Apple Valley Golf Course	1	126,540.00	126,540	\$115,854
Temporary Construction	11	801.01	8,811	\$57,341
Unaccounted For Water (Domestic)	N/A	N/A	329,233	N/A
Unaccounted For Water (Irrigation)	N/A	N/A	1,636,729	N/A
Miscellaneous Revenue	N/A	N/A	N/A	\$46,693

**3.2. Operations and Maintenance**

In general, Ranchos's expense estimates were based on a five-year average of recorded expenses (2009 – 2013) escalated to the test year when such an average methodology was appropriate. The parties agreed that the 2013 data used is to include recorded 2013 updates. The parties also agree to use ORA's recommendation of a labor escalation factor of 1.5 percent for 2014 and 1.9 percent for Test Year 2015. The parties agree to use composite escalation factors of two percent for 2014 and two percent for Test Year 2015 based on the 60/40 weighting of the Non-Labor Index and the Compensation per Hour.

As for purchased power and replenishment assessments, chemical expenses, leased water rights and uncollectibles, and depreciation clearing, ORA and Ranchos agreed on the same methodologies and reached the same estimates after using updated 2013 recorded data and resolving total water supply and utility plant in service estimates. Moreover, ORA and Ranchos agreed to use Ranchos's five-year average methodology with certain exceptions for estimating operations – other, customer – other (excluding conservation), and maintenance – other.

ORA and Ranchos agree to calculate payroll using ORA's proposed end-of-year 2014 pay rates with an increase of 2.6 percent for 2015. The payroll expenses for the escalation years 2016 and 2017 will be calculated according to the Escalation Year methodology in the Rate Case Plan. The table below summarizes the compromise.

**Table 2. Payroll.**

<b>Test Year 2015</b>	<b>Ranchos</b>	<b>ORA</b>	<b>Settlement</b>
Payroll Operations	\$837,851	\$823,965	\$834,443
Payroll Customers	\$506,633	\$498,085	\$504,509
Payroll Maintenance	\$437,181	\$429,856	\$435,255
Payroll Clearings	\$ 122,904	\$120,856	\$122,404
Total O & M Payroll	\$1,904,569	\$1,872,762	\$1,896,611

With the above payroll compromise and updated 2013 recorded data, ORA and Ranchos reached the same estimate for clearings-other and payroll-clearings.

### **3.3. Administrative and General Expenses**

ORA recommended 17 adjustments to Ranchos's initial administrative and general expense estimates. Two of those adjustments were due to the use of updated 2013 recorded data, while nine of the adjustments arose out of resolutions between Ranchos and ORA concerning the escalation factor, five-year average methodology, payroll estimates, and utility plant in service estimates. The table below summarizes the settlement on the recommended adjustments.

**Table 3. Administrative and General Expenses.**

<b>Test Year 2015</b>	<b>Ranchos</b>	<b>ORA</b>	<b>Settlement</b>
Administrative & General Payroll	\$1,616,364	\$1,590,294	\$1,609,905
Post-retirement Health and Life Benefit - Ranchos	\$41,547	\$35,597	\$35,597
Medical Insurance - Ranchos	\$605,868	\$596,220	\$605,964
Dental Insurance - Ranchos	\$47,796	\$46,332	\$46,332
401(K) - Ranchos	\$79,261	\$69,720	\$78,921
EAP/Wellness - Ranchos	\$22,269	\$5,351	\$10,702
401(A) - Ranchos	\$77,276	\$56,632	\$76,789
Net Benefits Adjustment	\$2,063	\$2,030	\$2,056

Insurance	\$662,982	\$644,088	\$662,407
Uninsured Property Damage	\$ 8,785	\$8,717	\$8,766
Regulatory Commission Expense	\$162,304	\$131,341	\$159,307
Total Estimate for Outside Services	\$261,181	\$230,307	\$244,353
Total Administrative and General - Other Expenses	\$514,452	\$451,471	\$496,013
Administrative and General Transferred Credit	\$637,345	\$184,846	\$414,181
Rents	\$17,281	\$16,711	\$16,809
Depreciation Expense	\$3,222,134	\$3,001,600	\$3,205,849

### **3.4. Taxes**

ORA accepts Ranchos's methodology for calculating estimates for Ad Valorem Taxes, Payroll Taxes, Tax Depreciation, Interest Expense Deduction, and the Qualified Production Activities Deduction. The original variations in estimates between the two parties were due to the use of estimates made prior to resolution.

In regard to ORA's recommendation concerning the American Taxpayer Relief Act of 2012, the parties have resolved this issue by excluding this recommendation because Ranchos does not elect to take the Bonus Depreciation for 2013 and regulatory agencies cannot impute bonus depreciation for ratemaking purposes when a utility has elected not to take it.

### **3.5. Utility Plant in Service**

This section of the settlement resolves capital budgets, the construction of a new well, the deferred construction of a storage tank at the Bell Mountain tank site, the main replacement program, replacement vehicles, implementation of Power Plan software, and Customer Information System related projects.

We grant the majority of the settlement terms under utility plant in service, but deny the proposed settlement on the main replacement program for being

against the public interest. A detailed discussion of our modification is in Section 4 of this decision.

Ranchos agreed to withdraw its request for the creation of an auto-import tool for new customers. As a result of the settlement, Ranchos withdrew its request to construct a new office building and will instead file a separate application for the new building at a different time. Similarly, Ranchos withdrew its request for the Office Remodel from this proceeding and instead will request it in the Park Central Basin Test Year 2016 GRC application.

### **3.6. Depreciation Rates, Reserve, and Depreciation Expense**

Ranchos and ORA's methodology for calculating depreciation reserve and expenses did not differ. Moreover, ORA accepted Ranchos's method for estimating depreciation rates.

### **3.7. Rate Base**

Ranchos and ORA did not have methodological differences for calculating deferred income tax estimates. The actual differences in estimate were resolved once Ranchos corrected errors in its Application and the parties reached a resolution for utility plant estimates. ORA agreed to Ranchos's estimates for materials and supplies using the stipulated number of customers.

ORA and Ranchos had conflicting methodologies for deriving working cash estimates but settled on using a specific revenue lag, including in Operational Cash the unamortized portion of agreed upon rate case costs and studies included in the settlement and the stipulated and adopted expenses and utility plant in service estimates.

**3.8. Park Water Company General Office**

This section of the settlement resolves estimates concerning Park Water Company General Office, which include payroll, maintenance, insurance, bank fees, outside services, board of directors' fees, taxes, and depreciation, among others. The resolution of each issue was achieved by one party accepting the position of another or by a compromise between the two positions.

**3.9. Affiliate Transactions, Rate Design, and Water Quality**

ORA does not contest Ranchos's methodology for estimating affiliate transactions and residential and non-residential rate design. ORA also found Ranchos to be in compliance with the State Water Resources Control Board's water quality regulations, federal drinking standards, and the Commission's General Order 103-A.

**3.10. Memorandum and Balancing Accounts**

ORA and Ranchos agree that Ranchos will continue using its accrual method accounting practice. The parties also agreed to the terms of recovery for seven of Ranchos' memorandum accounts and that five of the memorandum accounts will be closed. Ranchos also agreed to withdraw its request for a Hexavalent Chromium 6 Memorandum Account because the State Water Resources Control Board's regulation for Chromium 6 does not impact Ranchos's groundwater sources.

**3.11. Special Requests**

Ranchos requested two additional tariff charges for fire flow testing and restoration of service. ORA did not oppose Ranchos's fire flow testing tariff charge but did oppose restoration of service during after-hours and voluntary disconnection for non-emergency, voluntary disconnection after-hours

(non-regular hours). However, after settlement negotiations, the parties agreed that both tariff changes should be adopted and that the costs should be charged to those causing the expense, rather than distributed to all customers.

### **3.12. WRAM/MCBA (without modification)**

ORA opposed Ranchos's requests to modify the WRAM/MCBA. Ranchos proposed to continue its existing WRAM/MCBA with modifications. These modifications include adding the gravity irrigation system to the WRAM/MCBA mechanism and adding the costs of chemicals to the MCBA. Although the parties disagree on Ranchos's proposed modifications to the WRAM/MCBA, they agree that the Commission should authorize the continuance of the WRAM/MCBA. We resolve the disputed modifications in Section 5 of this decision.

### **3.13. Low-Income Ratepayer Assistance Program**

ORA does not oppose Ranchos's request to continue its existing low-income discount program known as California Alternate Rates for Water (CARW). Ranchos proposes to continue its program by: (1) increasing the current monthly service charge discount of \$6.69 by the average percentage increase to rates authorized in this proceeding; (2) the continuation of a surcharge to offset the CARW discounts provided to qualifying customers; and, (3) recovering the under-collection recorded in the CARW Balancing Account as of December 31, 2013, in the amount of \$425,758 through a 12-month temporary surcharge.

### **3.14. Discussion**

Rule 12.1 requires that we evaluate each proposed settlement to determine whether it is reasonable in light of the whole record, consistent with the law, and in the public interest. The proposed Settlement Agreement describes the settling

parties' initial and settled positions, the settlement on each issue, and provides references to the evidentiary record addressing the particular issue. In addition, Ranchos and ORA also submitted a Joint Comparison Exhibit as part of their motion to approve partial settlement.<sup>6</sup>

As reflected in their reports, testimony and briefs, Ranchos and ORA began this GRC proceeding with different positions on various issues. The parties had access to reports, testimony, minimum data requirements, data request responses and have been in discussions on the issues involved. The proposed partial settlement agreement represents a compromise between the parties after arm's length negotiations. We find that Ranchos and ORA have considered the facts and law relevant to this case and reached reasonable compromises on most of the issues raised in Ranchos's Application. Except for the main replacement program as discussed in Section 4 of this decision, we find the settlement agreement as modified to balance various interests affected in this proceeding, reflects appropriate compromises of the parties' litigation positions and, as modified, is reasonable.

We are not aware of any statutory provisions or prior Commission decisions that would be contravened or compromised by the proposed Settlement Agreement. If adopted as we have amended, the Settlement Agreement will result in reasonable rates for Ranchos's customers. As such, we find the proposed partial settlement, as modified, to be consistent with the law.

The Commission has issued numerous decisions endorsing settlements if they are fair and reasonable in light of the whole record. Adoptions of

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<sup>6</sup> The Joint Comparison Exhibit is attached to this Decision as Appendix B.



reasonable settlements reduce the expense of litigation and conserve Commission resources, and allow parties to reduce the risk that litigation will produce unacceptable results.

Based upon the record of this proceeding we find the parties complied with Rule 12.1(a) by making the appropriate filings and noticing settlement conferences. Based upon our review of the settlement documents we find that the settlement contains a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds for its adoption; that the settlement, was limited to the issues in this proceeding; and that the settlement included comparisons indicating the impact of the settlement in relation to the utility's application and issues the other parties contested in their prepared testimony, or would have contested in a hearing. We conclude, pursuant to Rule 12.1(d) that the settlement, as modified below, is reasonable in light of the whole record, consistent with the law and in the public interest.

#### **4. Settled Issues not Approved in this Decision**

The one settled issue that we do not approve is the Main Replacement Program under Utility Plant in Service. We find the aggressive main replacement program to be against the public interest. As proposed, it places undue burden on Ranchos ratepayers at a time of increasing utility costs.

##### **4.1. Main Replacement Program**

Ranchos requested \$4,985,153 for main replacements in 2014, \$5,791,591 in 2015, and \$6,007,083 in 2016 in addition to \$200,000 per year for emergency main

replacements.<sup>7</sup> In its Report on the Results of Operation, ORA noted that Ranchos's budget for main replacement constitutes 63 percent of its capital budget in 2014, and 43 percent of its capital budget in 2015 and 2016.<sup>8</sup> ORA believes that Ranchos is pursuing an overtly aggressive main replacement program, using a shorter service life for plastic and steel pipelines and overestimating leak rates for these types of pipes.<sup>9</sup> ORA recommended a main replacement program that reflects the average annual expenditure of the last five years, which resulted in \$1,689,314 for main replacement in 2014, \$1,729,013 in 2015, and \$1,769,645 in 2016.

In the proposed settlement, ORA and Ranchos agreed to a main replacement program of \$4,985,153 in 2014, \$5,291,591 in 2015, and \$5,507,083 in 2016. See Table 4-A below.<sup>10</sup>

**Table 4-A**

Year	Ranchos Original	ORA Original	Difference	Proposed Settlement
2014	\$4,985,153	\$1,689,314	\$3,295,839	\$4,895,153
2015	\$5,791,591	\$1,729,013	\$4,062,578	\$5,291,591
2016	\$6,007,083	\$1,769,645	\$4,237,438	\$5,507,083

As shown in Table 4-B below, Ranchos's most recent five-year expenditures in main replacements range between \$239,121 to \$3.2 million, with

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<sup>7</sup> Exhibit A-1 (Ranchos Revenue Requirement Report-Test Year 2015) at 67-68.

<sup>8</sup> Exhibit O-1 (ORA Report on the Results of Operations, Public Version- Test year 2015) at 8-30.

<sup>9</sup> Exhibit O-1 at 8-30 to 8-32.

<sup>10</sup> Settlement Agreement attached as Appendix A at 53.

an annual average of approximately \$1.6 million.<sup>11</sup> Ranchos alleges that lower expenditures in 2009 and 2010 were due to cash flow shortages caused by the economic downturn and that the lower expenditures further justifies the proposed increases.<sup>12</sup> Ranchos began pursuing an aggressive main replacement program in the last general rate case. In D.12-09-004, the Commission adopted a partial settlement between ORA and Ranchos and authorized a total of \$3,633,952 to be spent on main replacement in 2011, 2012, and 2013.<sup>13</sup> Ranchos then recorded main replacement expenditures of \$7,361,470 from 2011 to 2013, more than doubling the authorized amount.<sup>14</sup>

**Table 4-B**

Year	Settlement amount <sup>15</sup>	Actual expenditures <sup>16</sup>
2009		\$239,121
2010		\$652,042
2011	\$994,432	\$1,245,777
2012	\$1,068,618	\$2,884,993
2013	\$1,570,902	\$3,230,700

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<sup>11</sup> Exhibit O-1 at 8-39.

<sup>12</sup> Exhibit A-18 (Dalton Rebuttal) at 11.

<sup>13</sup> Settlement Agreement attached as Attachment A to D.12-09-004 (*Decision Adopting Partial Settlement and Resolving All Litigated Issues for Apple Valley Ranchos Water Company's Test Year 2012 General Rate Case*) at 25.

<sup>14</sup> Exhibit O-1 at 8-39.

<sup>15</sup> Settlement Agreement attached as Attachment A to D. 12-09-004 at 25.

<sup>16</sup> Exhibit O-1 at 8-29.

Pursuant to the January 8, 2015 ALJ Ruling, Ranchos submitted information on its 2014 main replacement program. According to Ranchos, it has spent \$5,127,614 on main replacements in 2014, again exceeding the proposed settlement amount.<sup>17</sup>

Main replacements are needed to minimize liability, property damage and unaccounted-for water. When mains are replaced they are often upsized to comply with local fire district ordinances. In the current GRC, Ranchos seeks to further increase its main replacement program to replace existing mains, improve fire flow capacity, fire hydrant spacing, water quality and accommodate work by others such as road construction.<sup>18</sup> Ranchos has approximately 465 miles of pipes in its system and has reduced its leak rates from around 750 leaks in 2007 to 511 leaks in 2012.<sup>19</sup> To reach the industry leak rate goal of 0.15 leaks per mile per year as recommended by the American Water Works Association, Ranchos needs to reduce its leak rate to 69.75 leaks each year.

While we recognize the strides Ranchos has taken to decrease its leak rates, such drastic increases in capital expenditures places a heavy financial burden on Ranchos ratepayers. As Ranchos stated in its application, there is a significant decrease in projected water sales for the current GRC.<sup>20</sup> If the Commission authorizes \$15.7 million dollars in capital expenditures as proposed, it would

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<sup>17</sup> Response to Administrative Law Judge's Ruling By Apple Valley Ranchos Water Company (U 346 W), filed January 15, 2015, at 1.

<sup>18</sup> Settlement Agreement attached as Appendix A at 52.

<sup>19</sup> Exhibit A-1 at 63.

<sup>20</sup> Ranchos Application at 1.

necessitate corresponding rate increases to ensure a fair, just and reasonable rate of return to Ranchos.

In balancing the competing interests of system maintenance, replacing aging mains, providing high quality water service to customers at reasonable rates, and ensuring that Ranchos receives a fair rate of return, we cannot grant a main replacement program as proposed by Ranchos and ORA. We authorize a main replacement program by taking the average of Ranchos's recorded main replacement costs for 2012 and 2013 to arrive at \$3,057,846 for test year 2014, \$3,129,705 for 2015, \$3,203,253 for 2016 and \$3,278,529 for 2017. This budget allows Ranchos to maintain its current level of spending without placing additional significant burden on ratepayers.

This decision also directs Ranchos to establish a memorandum account to record expenses in excess of the authorization. While we are cognizant of potential unforeseen costs associated with a water system, we cannot understand why actual expenditures more than doubled the authorized amounts in both 2012 and 2013. Ranchos may seek reimbursement at a later time for expenditures established as reasonable both in terms of replacement rate, as well as replacement cost on a per foot basis for the mains.

Should the parties decline to accept the modification to the settlement set forth in this decision, the assigned Commissioner shall issue a revised scoping memo to set the underlying matters for evidentiary hearings.

## **5. Disputed Issues Resolved by this Decision**

This decision also resolves the disputed issues between ORA and Ranchos not contained in the settlement agreement. The disputed items are:

- Conservation estimate;
- Conservation balancing account;

- Solar project memorandum account;
- Office remodel balancing account;
- Use of estimates in balancing accounts;
- Level payment plan;
- Sales reconciliation mechanism;
- Inclusion of gravity irrigation system in the WRAM/MCBA; and,
- The inclusion of chemicals in the MCBA.

Three issues between the Town, who is not a party to the Settlement Agreement, and Ranchos remain unsettled as well. They relate to 1) WRAM/MCBA Implementation Review; 2) Rate Design; and 3) Water Rate Comparison.

### **5.1. Conservation Estimates**

This decision authorizes an aggregate conservation budget of \$350,902 for the three-year GRC cycle. Ranchos will continue tracking its conservation expenses in a one-way balancing account subject to refund at the end of the GRC cycle. To ensure consistent spending while allowing flexibility, we allow Ranchos an annual 20 percent variance from its estimated conservation expenses of \$113,528 for 2015, \$116,933 for 2016 and \$120,441 for 2017. Finally, spending on public information and outreach shall continue to be subject to a \$30,000 annual cap.

Ranchos requests removal of the one-way balancing account and an aggregate conservation budget of \$350,902 for the three-year GRC cycle (2015-2017) based on its 2011 Water Use Efficiency Business Plan. ORA recommends the continuation of the one-way balancing account and a conservation budget of \$67,817 for 2015, \$69,445 for 2016, and \$71,042 for 2017. ORA points to Ranchos's

underspending its conservation budget in 2012 and 2013 as justification for reducing the conservation program budget.

While the Commission authorized an aggregate conservation cap for the 2012-2014 rate case cycle,<sup>21</sup> the cap was based on estimated annual spending in the areas of public information, high efficiency nozzle distribution, high efficiency toilet install, and the cash for grass turf removal program. The aggregate cap was intended to allow variances in annual spending, rather than an underspending of approximately 40 percent of the authorized amount.<sup>22</sup>

California's drought conditions warrants continuation, rather than reduction of conservation programs. The Commission adopts Ranchos recommendation of \$350,902 for the three-year GRC cycle as long as Ranchos consistently spends the allotted amount over the three years. To promote efficient and consistent spending, we allow Ranchos an annual 20 percent variance from its estimated conservation expenses of \$113,528 for 2015, \$116,933 for 2016 and \$120,441 for 2017. By granting \$350,902 to be used consistently over three years, Ranchos is afforded flexibility in its conservation programs so that it can better handle increased customer participation and meet its conservation goals. If Ranchos fails to spend its conservation budget as directed by the commission, the underspending will be refundable to ratepayers and the overspent will be absorbed by Ranchos shareholders.

We adopt ORA's recommendation to cap public outreach at \$30,000 annually, and decline Ranchos's request to remove the one-way balancing

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<sup>21</sup> Settlement Agreement attached as Attachment A to D.12-09-004 at 14.

<sup>22</sup> Ranchos spent \$129,423 of its estimated \$210,905 conservation budget in 2012 and 2013 and plans to spend all of its \$81,452 underspent in 2014. See Exhibit O-1 at 3-7.

account subject to refund. Any unspent funds will be refunded to ratepayers via surcredits at the end of this GRC cycle. In consideration of Ranchos's conservation budget, requiring Ranchos to use a one-way balancing account enables the Commission to ensure that Ranchos is properly balancing conservation program investments over the course of the rate case period.

### **5.2. Solar Project Memorandum Account**

The Commission authorizes Ranchos to establish a memorandum account to track the costs associated with investigating the viability of installing an Alternating Current (AC) solar photovoltaic generation system at its office site. Any cost recovery of this memorandum account will be subject to a reasonableness review during Ranchos's next GRC.

Ranchos requests authorization to establish a memorandum account to track the costs, expenses, and capital costs associated with exploring the viability of installing an AC solar photovoltaic generation system on the grounds of its office site.

ORA opposes the authorization of a memorandum account because the details of Ranchos's program remains undefined, Ranchos has not conducted a cost-effectiveness analysis, the costs of such a project may result in significant rate increases to ratepayers, and Ranchos has not met the requirements of establishing a memorandum account under Standard Practice U-27-W.

While ORA's concerns have merit, the purpose of a memorandum account is to allow the company to enter into an action where it bears the full risk of future rate recovery based upon a later reasonableness review. Here, the account would be structured such that Ranchos bears the full risk of recovery because cost recovery is subject to a reasonableness review. Furthermore, Ranchos is only authorized to investigate the viability of solar installation, rather than actual



construction. Therefore, the Commission preserves the ability to deny Ranchos recovery of costs when less expensive sources of power are available. Moreover, the purpose of the account, to explore the viability of solar photovoltaic generation system at Ranchos's site, is consistent with Commission policy of encouraging the use of renewable energy to reduce power costs. Therefore, the Commission grants Ranchos the authority to establish a memorandum account to track the costs and expenses associated with investigating the viability of installing a solar photovoltaic generation system for its office site. To be clear, any actual installation and construction is not authorized by the memorandum account and will be subject to Commission review in another proceeding. Ranchos should file a Tier 2 advice letter incorporating the memorandum account into the preliminary statements in its tariff.

### **5.3. Office Remodel Balancing Account**

The Commission denies Ranchos's request to recover at this time the costs tracked in its Office Remodel Balancing Account. D.12-09-004 authorized Ranchos to create a balancing account to track the revenue requirement associated with the office building modification that could be recovered "once the construction was completed," subject to a reasonableness review.<sup>23</sup> D.12-09-004 placed a prerequisite that construction be completed prior to Ranchos's ability to recover the costs associated with the office construction. Therefore, because Ranchos's office reconfiguration has yet to be completed, Ranchos may not seek recovery of the costs tracked in the Office Remodel

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<sup>23</sup> D.12-09-004 at 18.

Balancing Account. Ranchos will be able to seek recovery of the balancing account when construction/remodel is completed for its office project.

#### **5.4. Use of Estimates in Ranchos' WRAM/MCBA**

The Commission denies ORA's recommendation that Ranchos be required to stop using the accrual method of accounting for recording costs in its WRAM/MCBA.

ORA asserts that neither D.08-09-026, which adopted Ranchos's WRAM/MCBA, nor D.08-02-036, which authorized Park Water Company's WRAM/MCBA and which is what Ranchos's WRAM/MCBA is modeled after, authorize the use of estimated costs instead of actual costs.<sup>24</sup> ORA argues that both decisions require the utility to track the difference between actual variable costs and adopted costs. ORA asserts that the appropriate time for Ranchos to file for recovery is after the accrued/estimated costs become actual costs and that by waiting to request recovery, ratepayers do not have to wait as long to receive a refund if collections are in excess of actual costs.<sup>25</sup> ORA also suggests that Ranchos' recording method is burdensome to the Commission and points to the California State Auditor's Report, which concluded that the Commission lacks adequate processes to provide sufficient oversight of utility balancing accounts to protect ratepayers from unfair rate increases.<sup>26</sup>

Ranchos relies on the accrual method because of the timing of the retroactive calculation methodology used by the Mojave Water Agency to

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<sup>24</sup> Reply Brief of the Office of Ratepayer Advocates (ORA Reply Brief), filed August 4, 2014, at 17.

<sup>25</sup> ORA Reply Brief at 18-19.

<sup>26</sup> ORA Reply Brief at 20.

administer leased water rights and the timing of the Mojave Basin water year.<sup>27</sup> Since the actual costs are not available prior to when Ranchos is required to file for its WRAM/MCBA recovery, Ranchos necessarily estimates costs incurred. Also, Ranchos must use accrual accounting to comply with Generally Accepted Accounting Principles (GAAP) and with the Commission's Uniform System of Accounts for Water Companies (Class A). Furthermore, through the true-up process, Ranchos places the true-up adjustments in the time period for which they actually occurred, and calculates the interest in the balancing account on that basis.<sup>28</sup> Thus, ratepayers receive interest on any under- or over-estimating of the accruals that may occur.

#### **5.5. Level Payment Plan**

The Commission grants Ranchos and the Town's request for a Level Payment Plan that will give customers the option of paying for water service in equal bi-monthly payments based on their last 12 months average bill. At the end of the 12-month period, customers who elect the Level Payment Option will receive a settlement bill with a payment due or a credit balance. The Level Payment Plan is authorized as a pilot program subject to review during Ranchos's next GRC.

ORA asserts that Ranchos failed to provide costs associated with and mechanics of the plan and therefore failed to meet its burden to prove that costs are reasonable.<sup>29</sup> ORA assumes that low income customers have no significant

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<sup>27</sup> Opening Brief of Apple Valley Ranchos Water Company (Ranchos Opening Brief), filed July 21, 2014, at 17.

<sup>28</sup> Ranchos Opening Brief at 24.

<sup>29</sup> ORA Reply Brief at 21.

outdoor water use, therefore baseline water use should not differ dramatically in the winter versus the summer months. Also, ORA claims that the level payment plan potentially obscures the price signal sent by conservation rate design.<sup>30</sup>

The Town recommends the adoption of the plan because it provides customers with budgetary assistance and avoids rate shock associated with fluctuating water bills.<sup>31</sup>

Ranchos is not seeking any costs to implement the plan, and it points to significant fluctuations in seasonal demand in support of giving its customers the level payment option.<sup>32</sup> The Commission grants Ranchos's Level Payment Plan with the caveat that it will be subject to review during Ranchos's next GRC. The purpose of the plan is to assist households in budget planning and was requested by Ranchos' customers. By providing this option, Ranchos is being responsive to customers. Moreover, Ranchos is not requesting to recover costs or to track costs associated with the pilot program.<sup>33</sup> ORA's concerns regarding unforeseen amounts due to the end of year true-up can be minimized by the inclusion of actual usage information on each bill.<sup>34</sup> Also, the potential for obscuring conservation rate design price signals can be minimized via actual customer usage and cost information on ratepayers' bills. However, because of the valid concerns ORA raises, the Level Payment Plan shall be implemented as a trial

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<sup>30</sup> ORA Reply Brief at 21.

<sup>31</sup> Reply Brief of the Town of Apple Valley (Town Reply Brief), filed on August 4, 2014, at 1.

<sup>32</sup> Reply Brief of Apple Valley Ranchos Water Company (Ranchos Reply Brief), filed August 4, 2014 at 19.

<sup>33</sup> Ranchos Reply Brief at 19.

<sup>34</sup> Ranchos Reply Brief at 21.

program only, subject to review. We also limit enrollment to customers who have had a minimum of 12 months usage history with Ranchos to ensure adequate usage history.

#### **5.6. Sales Reconciliation Mechanism**

The Commission denies Ranchos's request to implement a Sales Reconciliation Mechanism (SRM). Ranchos seeks to implement an SRM to decrease the high WRAM surcharges that result from the significant differences between adopted and actual sales forecasts that derive from over-estimated consumption.<sup>35</sup> Ranchos proposes that the SRM will adjust the adopted sales forecast in the two escalation years following the test year if total sales for the prior year are more than five percent above or below the adopted test year sales.<sup>36</sup> The SRM would provide an adjustment of 50 percent of the difference.<sup>37</sup>

While the proposed SRM would act to reduce the WRAM surcharges associated with a GRC, we agree with ORA and the Town that review and consideration of changes to the WRAM should occur in an industry-wide proceeding rather than adopted for a single utility.<sup>38</sup>

#### **5.7. Modifications to the WRAM/MCBA Mechanism**

D.12-04-048, in A.10-09-017(the WRAM related Amortization Proceeding), requires a review of Ranchos's WRAM/MCBA mechanism in this GRC. As discussed in Section 3.12 of this decision, the parties are in agreement that the Commission should not adopt any of the five options outlined in D. 12-04-048,

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<sup>35</sup> Ranchos Opening Brief at 29.

<sup>36</sup> Ranchos Opening Brief at 29.

<sup>37</sup> Ranchos Opening Brief at 29.

<sup>38</sup> ORA Reply Brief at 22; Town Reply Brief at 2.

Ordering Paragraph 5.<sup>39</sup> We resolve the disputed modifications to the WRAM/MCBA here.

### **5.7.1. The Gravity Irrigation System**

Ranchos requests that the Commission add the gravity irrigation system to the WRAM/MCBA mechanism and eliminate the current incremental costs balancing account (ICBA).

ORA recommends denial of the request. According to ORA, commodity revenues and production costs for gravity irrigation should not be tracked in the WRAM/MCBA<sup>40</sup> because (1) to do so will not further the State's water conservation goals and (2) fluctuations in price are already tracked in the ICBA.<sup>41</sup> Due to the nature of the system (gravity and non-pressurized), Ranchos does not control the amount of water pumped into, and used by the single customer.

We agree with ORA's recommendation and deny Rancho's request to add the gravity irrigation system to the WRAM/MCBA mechanism. The WRAM/MCBA was created to remove the financial disincentive for utilities to promote conservation. The gravity irrigation system serves one customer, with a water supply contract which grants the right to pump and take from wells at no cost.<sup>42</sup> Granting WRAM/MCBA treatment to the system is unlikely to promote conservation and production costs related to the irrigation system is already

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<sup>39</sup> Exhibit O-1 at 19-8.

<sup>40</sup> Opening Brief of the Office of Ratepayer Advocates(ORA Opening Brief), filed July 21, 2014, at 21.

<sup>41</sup> ORA Reply Brief at 23.

<sup>42</sup> Apple Valley Ranchos Water Company Application, Exhibit B at 42-43.

being tracked in the ICBA. We see no reason to change the existing system and direct Ranchos to continue the ICBA.

#### **5.7.2. Chemical Costs**

We grant Ranchos's requests to add water treatment chemicals to the MCBA. We find water treatment chemicals to be part of the production costs intended to be captured by the MCBA and see no reason it should be excluded.

#### **5.8. Rate Design**

We will not spend a lot of time discussing the Town's proposal for a single quantity rate for commercial and residential customers.<sup>43</sup> Ranchos's rate design program includes increasing block rates designed to promote water conservation. Tiered rates for residential customers have been thoroughly studied in many Commission proceedings and adopted as part of the Commission's Water Action Plan.<sup>44</sup> While we are sympathetic to increasing water costs for Ranchos customers, we do not see single quantity rates as a viable option that would comply with the Commission's Water Action Plan. The Town's proposal is not adopted.

#### **5.9. Water Rate Comparison**

The Town presented a water rate comparison comparing Ranchos's rates to surrounding utilities and states that the cost of service for those utilities are significantly lower.<sup>45</sup> It recommends that the Commission authorize a study and

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<sup>43</sup> Exhibit T-2 (Rubin Direct) at 15-16.

<sup>44</sup> Water Action Plan(2005 and 2010 update); Conservation OII (Investigation 07-01-022, Order instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objections for Class A Water Utilities).

<sup>45</sup> Exhibit T-1 (Cron Direct) at 5.

report on measures Ranchos can implement ... to become more efficient.<sup>46</sup> The study presented by the Town compared Ranchos's rates to public agencies which does not include all sources of revenue used by public agencies and municipal owned water systems to fund their water operations.<sup>47</sup>

The Town has presented insufficient evidence that Ranchos is operating inefficiently, and we deny its recommendation for a new study, which would have to be paid by Ranchos customers.

## **6. Comments on Proposed Decision**

The proposed decision of ALJ Tsen in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by \_\_\_\_\_ on \_\_\_\_\_. Reply comments were filed by \_\_\_\_\_ on \_\_\_\_\_.

## **7. Assignment of Proceeding**

Carla J. Peterman is the assigned Commissioner and ALJ S. Pat Tsen is the Presiding Officer in this proceeding.

## **Findings of Fact**

1. Ranchos is a Class A Water Company subject to the Commission's jurisdiction.
2. There is an adequate record composed of all filed and served documents.
3. On August 8, 2014, Ranchos and ORA filed a motion to adopt a settlement agreement on various issues.

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<sup>46</sup> Opening Brief of the Town of Apple Valley, filed on July 21, 2014, at 18.

<sup>47</sup> Exhibit A-9 (Penna Rebuttal) at 13-14.



4. On September 8, 2014, the Town filed comments to the Joint Motion.

5. Ranchos and ORA request that the Commission authorize a change in Ranchos's tariff fees pursuant to Sections 17.1, 17.2, 17.3, and 17.4 of the Settlement Agreement effective January 1, 2015. Ranchos's interest on deposits would be the average monthly 90-day commercial paper rate. Ranchos's reconnection fee (outside of regular business hours) and voluntary disconnection charge (outside of regular business hours) would be \$150. Ranchos's fee for requested fire-flow tests would be \$60 per fire-flow test.

6. The Parties request that the Commission authorize a change in Ranchos's CARW discount (for qualifying customers) and the surcharge (for non-qualifying customers) pursuant to Section 19.0 of the Settlement Agreement

7. The Parties request that the Commission authorize the continuance of the existing WRAM/MCBA pursuant to Section 18 of the Settlement Agreement.

8. The Parties request that the Commission authorize recovery of the under-collected balance in Ranchos's Conservation Memorandum Account (\$77,384 as of December 31, 2013) pursuant to Section 16.5 of the Settlement Agreement.

9. The Parties request that the Commission authorize recovery of the under-collected balance in Ranchos' Outside Services Memorandum Account (\$2,006 as of December 31, 2013) pursuant to Section 16.6 of the Settlement Agreement.

10. The Parties request that the Commission authorize the refund of the over-collected balance in the Ranchos's Credit Card Balancing Account (\$4,148.42 as of December 31, 2014) pursuant to Section 16.8 of the Settlement Agreement.

11. The Parties request that the Commission authorize recovery of the under-collected balance in Ranchos's CARW Revenue Reallocation Balancing

Account (\$425,758 as of December 31, 2013) pursuant to Section 19.0 of the Settlement Agreement

12. The Parties request that the Commission make a finding that Ranchos meets all applicable water quality standards. This finding would be based upon ORA's review of water quality testimony and information provided by Ranchos.

13. The Parties request that the Commission make a finding that Ranchos is in compliance with the Real Property Subject to the Water Infrastructure Improvement Act of 1996.

14. The Parties request that the Commission order the filing of advice letters to implement increases for escalation years 2016 and 2017.

15. The Parties request that the Commission find that Ranchos's contract with HomeServe, that is subject to the Excess Capacity Decision (D.00-07-018) and Non-Tariffed Products & Services Rules in D.10-10-019 (Appendix A, Rule X) for unregulated transactions is properly reflected in Ranchos's revenue requirement

16. The proposed settlement on the main replacement program for 2014-2016 is against the public interest and places excessive financial burden on Ranchos's ratepayers.

17. A memorandum account would allow Ranchos the opportunity to recover reasonable expenses in excess of the authorized main replacement program.

18. A robust conservation program, with consistent annual spending, would better promote California's conservation goals.

19. A conservation program balancing account protects ratepayers and ensures refund of any unspent funds.

20. A Solar Project Memorandum account allows Ranchos the opportunity to recover costs it spends in exploring the feasibility of solar technology.

21. Ranchos will be able to recover the balance in its Office Remodel Balancing Account if and when construction is complete in a subsequent general rate case.

22. The use of estimates in Ranchos's WRAM/MCBA is in accordance with GAAP and was adopted by the Commission in past decisions.

23. An optional Level Payment Plan pilot, established based on past 12 months' usage would assist Ranchos' customers in household budgeting.

24. The Level Payment Plan Pilot should be reviewed by the Commission at the next GRC.

25. Adding the Gravity Irrigation System to WRAM/MCBA would not promote conservation.

26. Production costs for the Gravity Irrigation System is properly tracked in the Incremental Cost Balancing Account.

27. Water treatment chemicals should reasonably be included in the MCBA as part of production costs

### **Conclusions of Law**

1. Rule 12.1(d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

2. The Settlement, as modified, is reasonable in light of the whole record, consistent with the law, and in the public interest and should be adopted.

3. The Settlement terms on Ranchos's main replacement program is overly aggressive and should be denied.

4. Ranchos should be allowed to maintain its main replacement program by averaging its main replacement expenditures in 2012 and 2013.

5. Ranchos's main replacement expenditures in excess of the authorized amount should be subject to a reasonableness review.

6. Ranchos's request for an aggregate conservation budget of \$350,902 should be approved with an annual variance of 20 percent from its estimated conservation expenses of \$113,528 for 2015, \$116,933 for 2016 and \$120,441 for 2017.

7. Conservation spending on outreach and public information should be capped at \$30,000 annually.

8. Ranchos's conservation expenses should continue to be tracked in a one-way balancing account.

9. Ranchos should be allowed to establish a Solar Project Memorandum Account.

10. Ranchos should not be allowed to recover the costs tracked in its Office Remodel Balancing Account until construction on its office building is complete.

11. Ranchos should be allowed to rely on the accrual method of accounting and use estimates in its WRAM/MCBA calculations.

12. Ranchos should be allowed to establish a Level Payment Plan for ratepayers with a minimum of 12 months payment history.

13. Ranchos should not be allowed to implement a Sales Reconciliation Mechanism.

14. Ranchos should not be allowed to include its Gravity Irrigation System to the WRAM/MCBA mechanism and eliminate the current Incremental Costs Balancing Account.

15. Ranchos should be allowed to add water treatment chemicals to the MCBA.

16. Tiered block rates should be continued as a part of the Commission's Water Action Plan.

17. The Town's request for a study on how Ranchos can be run more efficiently should be denied

**O R D E R**

**IT IS ORDERED** that:

1. The joint motion of Apple Valley Ranchos Water Company and the Office of Rate Payer Advocates to approve the Settlement Agreement is granted except for the Main Replacement Program, which is modified as set forth in Ordering Paragraphs 5 and 6. The Settlement Agreement is attached as Appendix A to this decision.

2. The requests that resulted from the Settlement Agreement as modified by this decision are authorized.

3. Apple Valley Ranchos Water Company is authorized to file a Tier 1 advice letter to recover the difference between the interim rates and final rates from its customers in all districts. The difference between the interim and final rates based on the revenue requirement adopted here, shall be recovered over the balance of the rate case cycle.

4. For escalation years 2016 and 2017, Apple Valley Ranchos Water Company shall file Tier 2 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district. The filing shall include rate procedures set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A Water Utilities, and shall include appropriate supporting work papers. The revised tariff schedule shall take effect no earlier than January 1, 2016, and January 1, 2017, respectively, and shall apply to service rendered on and after their effective dates. The proposed revisions to

revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits. The Division of Water and Audits shall inform and Commission if it finds that the revised rates to not conform to the Rate Case Plan, this order, or other Commission Decisions, and if so, reject the filing.

5. Apple Valley Ranchos Water Company's revenue requirement shall include authorization for a Main Replacement Program of \$3,057,846 for test year 2014, \$3,129,705 for 2015, \$3,203,253 for 2016 and \$3,278,529 for 2017.

6. Apple Valley Ranchos Water Company shall establish a Main Replacement Program memorandum account to record main replacement expenses in excess of Commission authorization by filing a Tier 2 advice letter to add the memorandum account to the Preliminary Statement in its Tariff.

7. Apple Valley Ranchos Water Company is authorized an aggregate conservation budget of \$350,902, with \$113,528 for 2015, \$116,933 for 2016 and \$120,441 for 2017, and a 20 percent annual variance.

8. Conservation expenses for public information and outreach shall be capped at \$30,000 annually.

9. Apple Valley Ranchos Water Company shall continue to track its conservation expenses in a one-way capped balancing account.

10. Apple Valley Ranchos Water Company shall be authorized to establish a Solar Project Memorandum Account by filing a Tier 2 advice letter to add the memorandum account to the Preliminary Statement in its tariff.

11. Apple Valley Ranchos Water Company shall not be allowed to recover the costs tracked in its Office Remodel Balancing Account until construction on its office building is complete.

12. Apple Valley Ranchos Water Company shall be allowed to rely on the accrual method of accounting and use estimates in its Water Revenue Adjustment Mechanism/Modified Cost Balancing Account calculations.

13. Apple Valley Ranchos Water Company shall establish a pilot Level Payment Plan for ratepayers with a minimum of 12 months payment history.

14. Apple Valley Ranchos Water Company's pilot Level Payment Plan shall be subject to Commission review during the next general rate case.

15. Apple Valley Ranchos Water Company is authorized to add the cost of water treatment chemicals to the Modified Cost Balancing Account.

16. Application 14-01-002 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.